

WASHINGTON STATE FOREST LAND & TIMBER TAX

RCW 84.33 and RCW 84.28

TAXES ON TIMBER

A. Private Timber

- Exempt from property tax
- Subject to excise tax on stumpage value at time of harvest
- Tax paid quarterly

B. Public Timber (State, Federal and Other)

- Subject to excise tax on contract purchase price
- Tax paid quarterly by purchaser
- State and other timber sales subject to personal property tax

TAXES ON PRIVATE FOREST LAND

- Subject to annual property tax
- Assessed value based on value of bare land for growing and harvesting timber
- Twenty acres or more to be eligible (**5 acres or more for open space**)
- Must be used primarily for growing and harvesting timber

HISTORICAL BACKGROUND

In 1971, the Washington State Legislature enacted a new system for taxing private forest lands and timber. Up until that time, timberlands were subject to the property tax like most other kinds of real property. The property tax was difficult and expensive to administer for forest lands. Since most forest property only produces harvest income after a 50 or 60 year growth period, landowners often found it difficult to pay property taxes every year on their timberlands —especially if the assessed values were not based on the use of land for timber growing.

Recognizing these shortcomings, the 1971 Legislature enacted an excise tax on the value of timber at the time it is harvested from the land. The land itself remains under the property tax, but assessed values now reflect only the value of the bare land for growing and harvesting timber.



The 1971 Forest Tax Law was designed to ensure that taxes do not destroy the economic incentives for growing timber on private timberlands by providing uniform, predictable, and fair taxes for forest landowners. It also ensures forest lands will continue to pay a share of state and local taxes.

HOW THE FOREST TAX LAW WORKS

Washington's forest tax law works as two complimentary tax systems: (1) a "current use" property tax on the land, and (2) an excise or "yield" tax on timber.

Property Tax on Forest Lands

Designation. The 1971 Forest Tax Law required county assessors to identify all lands that were chiefly devoted to growing and harvesting timber and to "classify" all parcels of 20 acres or more as forest land. Forest landowners that qualified could also apply to the assessor to classify their land as "designated" forest land. Legislative changes made in 2001 combined classified and designated forest land into one category called designated forest land. If the assessor designates the property as forest land or the application for designation is approved, the property is assessed at forest land values as designated forest land (current use). To qualify for designation, the applicant must own at least 20 acres (not including one acre for a residence) and the land must be used primarily for growing and harvesting timber. The assessor may require the applicant to include a forest management plan with the application. The applicant must



also be in compliance with the state's forest practice laws and regulations.

Valuation. The forest land values are determined by the Washington State Department of Revenue, and vary depending on the productivity of the soil and operability or the cost of harvesting timber crops from the land. For example, in the 2001 assessment year, forest land assessed values ranged from a high of \$234 per acre for the most productive land to \$17 per acre for the least productive land. The forest land values (WAC 458-40-540) are updated annually by the Department of Revenue using a formula (RCW 83.33.120) which indexes the changes in the land values to a five year average in stumpage values.

Removal and Compensating Tax. Designated land is assessed every year as forest land until the assessor removes the classification or the landowner requests removal. Assessors may remove the property from forest land designation if they feel that the property is no longer being managed for forest uses. Designation will also be revoked if the property is sold to a buyer who does not want to use it for forestry. In all cases, the property owner has the right to appeal a removal to the county Board of Equalization.

If the designation is removed either by the assessor or by request of the landowner, the owner may be required to pay a compensating tax to the county. The compensating tax is the difference in taxes between forest land assessment and "highest and best use" assessment, multiplied by the number of years the property has been classified as forest land up to a maximum of ten years.

The forest land designation program protects the owner from high property tax assessments by basing the assessment on actual use of the land for growing timber (current use). The trees are exempt from real property taxation. More than 6.5 million acres of private timberland have been designated in the year 2000 under the 1971 law.

OTHER TAX OPTIONS FOR FOREST LAND OWNERS

There is one other tax option available to people who own less than the 20 acres required for designation under the forest tax law. Parcels as small as five acres (not including a minimum of one acre for a residence) may qualify for

classification under the open space tax law (RCW 84.34) as Open Space Timber Lands. Land that is designated under this law is assessed for tax purposes in the same manner as forest land under the forest law (RCW 84.33). There are some differences in eligibility requirements, application procedures, and penalties for removal if the land use changes. For more information about the open space tax law, contact your county assessor.

CHRISTMAS TREE TAXES

There are two classes of Christmas tree growers. If Christmas trees are grown by intensive cultivation (i.e., tilling of the soil and control of the brush and weeds), on land classified as agricultural land under the open space tax law, trees are not subject to forest excise tax. If Christmas trees are grown under "wild" conditions, on land designated as forest land, the trees are subject to forest excise tax.

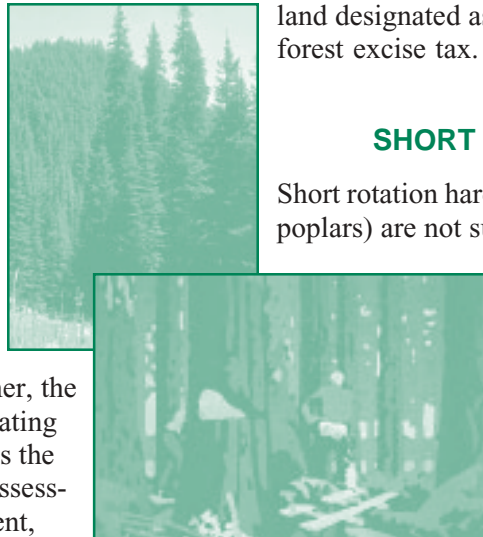
SHORT ROTATION HARDWOODS

Short rotation hardwoods such as hybrid cottonwoods (or poplars) are not subject to forest excise tax if they are:

- (1) grown using agricultural methods and
 - (2) grown for less than 15 years.
- Hardwood trees that are not cultivated by agricultural methods or are grown longer than 15 years are subject to regular forest excise tax.

The Timber Excise Tax

The timber excise tax is also administered by the Department of Revenue. In place of the property tax on timber, timber owners must pay a five percent excise tax (yield tax) on the stumpage value of their timber when they harvest. In 1982, the Legislature extended the tax to timber harvested from state and federal land, in addition to private land. Effective January 2000, the Legislature authorized a forest excise tax credit (Salmon Credit) equivalent to 0.8 percent of taxable stumpage value to help defray the cost of complying with the new Forest Practice Rules. Credit eligibility is determined by the Department of Natural Resources (DNR) when the Forest Practice Application (cutting permit) is approved. Small harvesters may get additional compensation through the DNR Small Forest Landowner Office's Forestry Riparian Easement Program (FREP). The FREP reimburses landowners for the trees they must, by law, leave in riparian areas to protect water quality and wildlife habitat. This office also provides assistance with alternate harvest and management plans and can be reached at (360) 902-1389.



Payment of the Timber Excise Tax. The timber excise tax must be paid by the timber harvester. The law defines a timber harvester as "anyone who fells, cuts or takes timber for sale or for commercial or industrial use." The law specifically excludes a person performing, under contract, the labor and mechanical services for a harvester. When timber is harvested from public lands, the harvester is the first person (other than the public) to acquire title possessory interest in the timber. Timber is considered harvested at the time the volume by species is first measured, usually by weighing or scaling.

Taxes are Due Quarterly. The timber tax must be paid quarterly on all timber harvested during a calendar quarter. The actual reporting deadlines are as follows:

Quarter of Harvest		Tax Due
1st Qtr. Harvest	(Jan., Feb., March)	April 30
2nd Qtr. Harvest	(April, May, June)	July 31
3rd Qtr. Harvest	(July, Aug., Sept.)	October 31
4th Qtr. Harvest	(Oct., Nov., Dec.)	January 31

Reporting of the Timber Excise Tax. State law requires anyone who intends to harvest timber on private land to obtain a Forest Practice Application (cutting permit) from the state Department of Natural Resources. This permit serves as the registration document for the timber excise tax. A copy of the cutting permit is forwarded to the Department of Revenue. The Department then mails the tax reporting forms and instructions to the person planning to harvest the timber. The reporting system is similar for timber cut on state and federal land except that the timber sale contract is used instead of a cutting permit to alert the Department that timber has been sold. If the Department of Natural Resources determines that a cutting permit is not required, the timber harvester may still owe tax and should contact the Department of Revenue for the needed forms.

Determination of Stumpage Values. The taxable value of stumpage is determined differently for large harvesters than for small harvesters. In addition, public timber is valued by a different method than private timber.

Small harvester option: Anyone who cuts less than two million board feet in a calendar year is considered a small harvester. Small harvesters may pay tax on the actual amount paid for stumpage or the actual amount received from the sale of logs minus the cost of harvesting the timber and delivering the logs to the buyer.

Large harvesters: Large timber harvesters must calculate taxable stumpage value by using stumpage value tables published twice a year by the Department of Revenue. These tables are mailed to the taxpayer along with the reporting forms. They list stumpage values by species and quality for different market areas (Stumpage Value Areas) across the state. Note: Small harvesters may also report using this method.

Public timber sales: For timber harvested on public land, the taxable stumpage value is the actual amount paid for the timber in cash or other consideration. Other consideration includes anything of value given in lieu of cash—such as roads constructed as part of the timber sale contract.

Distribution of Timber Excise Tax Revenue. Tax revenues collected from timber harvested on private land go to both the state and local government. The tax rate is composed of a county timber tax rate of four percent and a state tax rate of one percent for a total of five percent of the stumpage value. The four percent county tax revenue is distributed among local taxing districts within the county including the capital projects, voter-approved bonds, school maintenance and operations, county roads, county current expense fund, libraries, and fire districts. The state's one percent share of the tax goes to the state general fund and is used to help support various state programs including schools and social services. The salmon credit (0.8%) if applicable, only applies to the general fund share. All of the tax revenue from public timber harvest goes to the state general fund.

In calendar year 2000, the counties received about \$39 million from taxes on private timber while the state received a combined total of \$17 million from private and public timber.

OTHER RELATED TAXES

Personal Property Tax. State and other public timber sales are subject to personal property tax on the value of the uncut timber as of January 1. Personal property taxes paid on state timber sales can be claimed as a credit against timber excise taxes on any public harvest. Personal property tax credit applications are available from the county assessor's office and the Department of Revenue, Forest Tax Section.

Business and Occupation Taxes. Persons who harvest timber from their own land, or from the land of another, for sale for commercial or industrial use are considered "extractors" under Washington's business and occupation tax laws.



Extractors whose gross receipts, *including the loggers share*, exceed \$100 thousand in a calendar year **OR** anyone in the business of extracting are subject to business and occupation tax. Individuals meeting these criteria are required to register with the Department of Revenue and pay this additional tax. More information on registration and reporting requirements can be obtained by calling the Department of Revenue, Forest Tax Section's toll-free information line: 1-800-548-8829.

considered a sale of standing timber if title/ownership to the timber passes to the buyer before harvesting takes place. The tax is due under this circumstance even if the land is not sold with the timber. The state tax is 1.28 percent of the sale price, and in some areas local tax rates may apply. *Note:* If the timber sale contract specifies that the title/ownership to the timber passes to the purchaser after the timber is cut, it is not considered a sale of standing timber, and the real estate excise tax would not apply.

Real Estate Excise Taxes

Landowners who sell standing timber are liable for state and local real estate excise taxes. A timber sale is

These locations have a professional forester available in the office on Mondays for harvester assistance.

DISTRICT OFFICE	ADDRESS	PHONE
Everett	11627 Airport Rd. Suite B PO Box 6 Everett, WA 98206-0006	(425) 356-2768 FAX (425) 356-2945
Vancouver	8008 NE 4th Plain Blvd. Suite 320 PO Box 1641 Vancouver, WA 98668	(360) 260-6273 FAX (360) 260-6183
Olympia MAILING ADDRESS:	2735 Harrison Ave. NW, #440 Olympia, WA 98502 PO Box 47472 Olympia, WA 98504-7472	(360) 753-7086 1-800-548-8829 FAX (360) 664-8438
Port Angeles	734 East First Street Suite B PO Box 400 Port Angeles, WA 98362-0064	(Forester available by appointment only) (253) 593-5288
Spokane	N. 4407 Division, Suite 300 PO Box 7248 Spokane, WA 99207-0248	(509) 482-3811 FAX (509) 482-3803
Tacoma	3315 S. 23rd. St. Suite 300 Tacoma, WA 98405-1605	(253) 593-5288 (253) 593-5287

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